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Fiscal Note

Fiscal Services Division

HF 641 – Reinvestment Districts (LSB 2518HV)
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Fiscal Note Version – New

Description

House File 641 authorizes municipalities, with approval from the Iowa Economic Development Authority Board, to establish reinvestment districts. Additional provisions include:

- Specific requirements for establishment and approval of reinvestment district projects.
- Creation of a State Reinvestment District Fund. New state sales tax and state hotel and motel tax revenue will be deposited in the Fund. New state sales tax revenue is defined as 4/6th of state sales tax revenue from retailers within the district that receive a sales tax permit on or after the creation of the district. New state hotel and motel tax is defined as the total amount of state hotel/motel tax revenue from establishments within the District that receive a tax permit on or after the creation of the district.
- Creation of a Reinvestment Project Fund. Moneys in this Fund will consist of the state sales and hotel and motel tax revenues and are designated for the specific project for each municipality. Requires any monies remaining in the fund after project completion, or in excess of project costs, or upon the dissolution of a reinvestment district, to be deposited in the State General Fund.
- Limits the length of existence for a reinvestment district to 25 years after establishment,

Background

Currently, the state sales tax rate is 6.0% with 5/6th of the state sales tax revenue deposited in the State General Fund and 1/6th deposited in the Secure an Advanced Vision for Education (SAVE) Fund. The state hotel and motel tax rate is 5.0% of the price of renting of lodging.

Assumptions

The number, composition, and timing of reinvestment district projects are unknown. The following assumptions provide a scenario for different size reinvestment district projects that include one hotel, one restaurant, and two retail establishments.

- Data for the estimates was provided by the Department of Revenue's sales tax data base (including hotel/motel tax) for FY 2012. Average retail sales tax amounts excluded sales tax revenue from big box stores, large department stores, large home improvement stores, and automobile dealers. These entities were assumed to be too large based on the 50-acre maximum district size limitation. Additionally, average tax amounts remitted by restaurants, hotels, and motels in FY 2012 are used for each of the scenarios.
- Scenario one assumes a reinvestment district with an average size hotel (rental tax receipts ranging between $100,000 and $4.0 million in FY 2012), an average size restaurant establishment (tax sales of less than $1.0 million in FY 2012), and two average size retail establishments in a city with a population of less than 10,000.
- Scenario two assumes a reinvestment district with a large size hotel (rental tax receipts of greater than $4.0 million in FY 2012), a large size restaurant establishment (taxable sales above $1.0 million in FY 2012), and two average size retail establishments in a city with a population larger than 10,000.

- It is assumed that this Bill will be effective July 1, 2013. Since the Iowa Economic Authority Board must establish and approve the reinvestment districts, and construction must be completed on the projects, any fiscal impact will not occur until FY 2015 at the earliest.
- Growth rates for sales and hotel/motel tax receipts were assumed to be 3.6% for FY 2015, 3.7% for FY 2016, and 2.7% for FY 2017 and FY 2018.
- State sales tax and state hotel and motel tax revenue deposited in the State Reinvestment District Fund is defined as "new" state tax revenue under this Bill. However, sales from retailers within the District, to some extent, will impact sales from retailers outside but near the reinvestment district. Any sales made within the district that would have occurred outside the district will result in net reduction of 4/6th of state sales tax that normally would be deposited in the State General Fund. This same issue applies to state hotel and motel tax revenue with any room rentals occurring inside the reinvestment district that reduce room rentals outside the district and will result in a net reduction in the state hotel/motel tax amount. This specific amount of these occurrences is unknown and is not reflected in the fiscal impact.
- The following table provides the taxable annual sales within the reinvestment district under the two scenario examples.

Taxable Sales Amounts within Reinvestment Districts - Two Scenarios

	Scenario One	Scenario Two
Hotel	$ 1,067,000	$ 6,136,000
Restaurant	330,500	1,970,000
Two Retailers	834,000	1,232,000

Fiscal Impact

The estimated fiscal impact of HF 641 is unknown and will largely depend on the number, composition, and timing of reinvestment district projects. Additionally, taxable sales outside of reinvestment districts may be negatively impacted if consumers choose to purchase goods or services within the reinvestment districts instead.

The following table provides the estimated impact of each of the scenarios noted in the assumptions section. Under scenario one, tax revenue diverted to the Reinvestment Fund will total approximately $104,000 in the initial year with modest growth moving forward. Under scenario two, tax revenue diverted to the Reinvestment Fund will total approximately $451,000 in the initial year and reach a total of $493,000 by FY 2018.

Reinvestment District Fund Revenues/State General Fund			
Scenario One Example			
	State Hotel/Motel Tax	State Sales Tax	Total
FY 2015	$ 55,271	$ 48,257	$ 103,527
FY 2016	57,316	50,042	107,358
FY 2017	58,863	51,394	110,257
FY 2018	60,452	52,781	113,234
Scenario Two Example			
	State Hotel/Motel Tax	State Sales Tax	Total
FY 2015	$ 317,845	$ 132,691	$ 450,536
FY 2016	329,605	137,600	467,206
FY 2017	338,504	141,316	479,820
FY 2018	347,644	145,131	492,775

The Department of Revenue indicates that it would incur administrative costs to implement this Bill. Start-up costs for staff and technological improvements are estimated to be $250,000 for the first year, and $180,000 for following years for 2.0 FTE positions to manage and monitor transactions.

Source

Iowa Department of Revenue

/s/ Holly M. Lyons

April 23, 2013

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.